

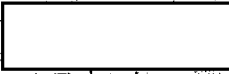
MEMORANDUM FOR:

Mr. Colby

Executive Registry

73-40000

Earlier this week after reading the Post's story on the GAO report about the Soviet grain deal of last year, you asked for some background on how well we had done on the problem and what we had learned from it. The attached material is a response to this request.


Ed Proctor

13 July 1973
(DATE)

FORM NO. 101 REPLACES FORM 10-101
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GAO REPORT ON SOVIET GRAIN PURCHASES
AND THE ROLE OF INTELLIGENCE
PAST AND PRESENT

A recent GAO report criticizes the Department of Agriculture's handling of the Soviet grain purchases last year, particularly its failure to predict the unprecedented Soviet demand for imports of grain in FY 1973. This memorandum examines the extent of CIA's coverage of this matter last year and describes the steps which have been taken to improve intelligence gathering and reporting on Soviet grain production and trade.

The GAO report claims that USDA failed to inform the public of the Soviet demand for grain imports though there were repeated reports from the US agricultural attache in Moscow that "the Soviet wheat crop would be adversely affected by freeze damage". It is true that Moscow reporting (as well as our own analysis and that of a number of analysts in USDA) charted fairly well the diminishing prospects for the grain crop through the late spring and early summer of 1972. A decline in production cannot be translated directly into an increase in imports, however, without specifying the rise in internal demand for grain, the level of stocks, and--where stocks exist--Soviet plans with respect to the level of stocks they intend to maintain. The implications of a short crop for import requirements are uncertain because intelligence on grain reserves and domestic requirements in the USSR is so sketchy.

USDA's failure to predict a large increase in Soviet grain imports probably stemmed mainly from its estimate of existing grain reserves. The Economic Research Service (ERS) of USDA had long argued that the USSR had ample stocks to meet temporary dislocations. ERS estimated in March 1972, in fact, that the USSR had as much as 35 million tons of wheat in stocks in mid-1971, an amount equivalent to two-thirds of the country's annual requirements

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for wheat and rye for food use. Thus, ERS concluded that the earlier Soviet grain purchases of 1971 were "not related to any apparent increase in Soviet domestic needs". This position differed radically from the stand taken in a CIA/OER report as early as September 1971 that "wheat reserves suitable for consumption as food are believed to be currently near minimum levels...it appears likely that the USSR is in a shaky position". When the 1972 crop outlook darkened, it seemed clear to us that large imports would be required.

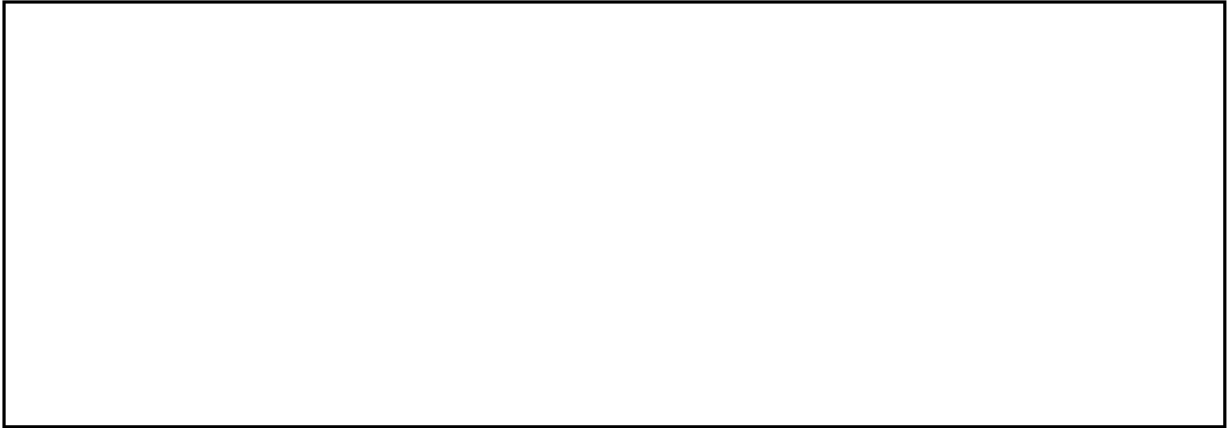
In February 1972, OER reported that the net loss in winter crops due to bad weather could amount to about seven million tons, and Soviet foreign trade bank officials admitted that further grain imports might be necessary. In March 1972, another OER report warned that the USSR was short of all types of feed grains and that purchases of US corn and soybean meal would be a "quick fix" to the Soviet feed problem. After similar statements in the following months, it should have come as no surprise to consumers of OER reports (including USDA) that the Soviet Union would require massive grain imports after crop prospects deteriorated sharply during the summer.*

GAO also says that USDA officials did not inform themselves of the size of the transactions that US firms were negotiating with the Soviets and therefore did not realize how large the subsidies would be under the then-existing regulations. Because of the extreme secrecy surrounding most major grain purchases, it is quite likely that USDA did not learn of the Soviet contracts until well after the fact. CIA was the first government agency to discover the full amount of the Soviet purchases [redacted]

[redacted] and we did not know until 3 August after the last of the deals had been consummated on the same day. Through July, we were

*A complete chronology of CIA reporting on the Soviet grain situation is set forth in a memorandum to the DDI, dated 22 October 1972 (attached).

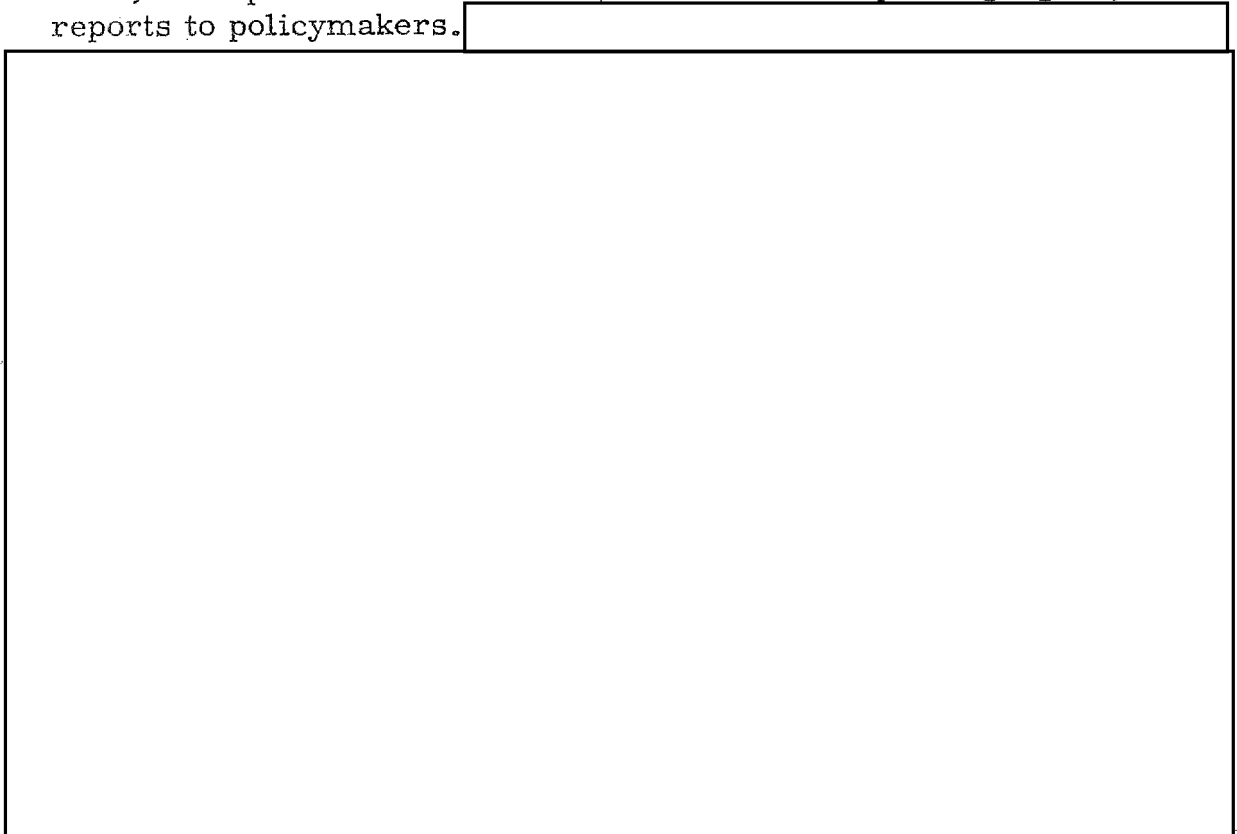
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As a result of the events of last year, a concerted effort has been made through government to sharpen intelligence techniques and to institute an effective system for early warning of another round of Soviet grain purchases. CIA is a central member of this team, and special dissemination procedures are speeding Agency reports to policymakers.

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Meanwhile, a more regular reporting procedure has been introduced both in USDA and CIA to keep the policymaker constantly in touch with changing Soviet crop and trade prospects. Within USDA, the major agencies have formed a task force which meets monthly and issues a joint report. At the request of Mr. Schlesinger last February, CIA began a regular series of reports to be given high-level dissemination at the Departments of Agriculture, Commerce, Treasury, and State, the NSC, CEA, CIEP, and OMB. The fifth in this series was published on 6 July (copy attached). These reports are intended to be more speculative than usual and aimed directly at US policy issues. So far these new efforts have paid off in more timely and, we hope, more useful accurate reporting.

July 1973

EXECUTIVE SECRETARIAT

Routing Slip

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Remarks: 4: Thanks -
 10: Should we brief any of your clients? -

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